DoF ramps up drive against tobacco smugglers

Finance Secretary Carlos Dominguez III has directed the Bureaus of Internal Revenue (BIR) and of Customs (BoC) to intensify their joint campaign against the illicit cigarette trade following the recent approval by Congress of a new law imposing substantial excise tax increases on tobacco products.

Dominguez issued the order after the BIR reported uncovering the presence of counterfeit cigarette brands and bogus tax stamps in raids conducted in Tacloban City and the provinces of Nueva Ecija and Tarlac.

“The proliferation (of illicit cigarettes and fake tax stamps), that’s going to bloom some more next year,” Dominguez said. “Bantayan nyo yan (Keep a tight watch over that),” he told BIR and BoC officials during the Execom meeting.

Dominguez also told Customs Commissioner Rey Leonardo Guerrero to step up the BOC’s drive against cigarette smuggling expected to increase once the law imposing higher “sin” taxes on tobacco products is implemented starting next year.

The tobacco “sin” tax reform bill, which is now up for President Duterte’s signature, provides for a unitary P45 excise tax increase per pack on tobacco products starting in 2020, followed by a series of P5-adjustments until the rate reaches P60 in 2023, and a 5 percent annual increase thereafter.

The unitary excise tax rate on tobacco products was earlier increased under the Tax Reform for Acceleration and Inclusion (TRAIN) Law from P30 per pack of cigarettes to P32.50 beginning 1 January 2018 and to P35.00 beginning 1 July 2018.

Starting 2020, heated tobacco and vapor products will also be taxed by P10 to P50, depending on the liquid volume under the tobacco tax reform bill.

At the recent Pre-State of the Nation Address (Pre-SoNA) forum of the Economic Development and Infrastructure Cabinet Clusters at the Philippine International Convention Center (PICC) in Pasay City, Dominguez said the DOF made history in 2017 by collecting from a cigarette manufacturer (Mighty Corp.) more than P30 billion for non-payment of excise taxes and for use of counterfeit tax stamps — the biggest on record raised by the government from a tax settlement with a single corporate taxpayer.

“Incidentally, we are the only administration that actually cleaned up the cigarette industry and raised tobacco excise taxes twice. This has never happened in any past administration,” Dominguez also said at the Pre-SoNA forum.

Dominguez said increasing taxes on tobacco products is only one aspect of “sin” tax reform, as higher taxes on alcohol products still have to be tackled and approved by the incoming 18th Congress.
The Department of Finance has proposed a tax of at least P40 per liter on alcoholic drinks.

Higher excise taxes on “sin” products will provide the government with the means to curb vices and undesirable behavior, while at the same time generate the hefty revenues needed to fully fund the Universal Health Care (UHC) program, which will require as high as P1.44 trillion combined from 2020 to 2024.

Dominguez said that from 2020 to 2024, all current sources of government funding can cover UHC at around P200 billion annually, while the cost of the program will start at P257 billion in 2020 and grow at an average of around P11 billion to P12 billion per year, amounting to a five-year total of around P1.44 trillion by 2024.

Without substantially adjusting the current “sin” tax rates, Dominguez said the cumulative funding gap by 2024 will reach P426 billion.

For 2020, the government can cover the cost of the UHC program from its current funding sources from the national budget, the Philippine Amusement and Gaming Corp. and the Philippine Charity Sweepstakes Office in the amount of P195 billion.

Without “sin” tax reform, UHC will be left with a funding shortfall of around P62 billion.

Finance Undersecretary Karl Kendrick Chua has said Philippine Health Insurance Corp. (PhilHealth) coverage will expand to cover 120 drugs and there will be no limit on primary care treatment conditions once the UHC law is fully implemented.

Barangay health care facilities will also be expanded and will be better equipped to render primary health care, Chua said.

The Department of Health (DoH) has also proposed that medicine purchases will be limited to a fixed fee — the cost of the transaction alone, instead of patients shelling out 90 percent of the expenses, Chua added.